

Aurora Fortitude Absolute Return Fund

Reinstatement of Liquidity & Antares Convertible Note Update

Aurora Funds Management Limited (“Aurora”) provides the following update in respect of the Aurora Fortitude Absolute Return Fund (the “Fund”).

Antares Convertible Note Update

As at 30 June 2016, the Fund held investments in Antares Energy Limited Convertible Notes (ASX: AZZG), which had been suspended from trading on the Australian Stock Exchange on 15 September 2015 and remain suspended as at the date of this update.

In February 2016, Aurora made the decision to freeze applications and redemptions in the Fund, on the basis that it could not accurately determine a value for the AZZG Notes.

For the purposes of the June 2016 year-end financial statements, and after careful consideration of all of the available information, Aurora has formed the view that the AZZG Notes should be recognised at a nil value. In forming this view, Aurora has relied on the following information:

- On 8 April 2016, Antares Energy Limited (“Antares”) issued a notice of resumed meeting of noteholders (to be held on 29 April 2016) to, amongst other things, extend the reset date of the AZZG Notes to 31 March 2017 and amend the next interest payment date to 30 April 2017. This meeting did not proceed.
- On 29 April 2016, Antares appointed Bryan Kevin Hughes and Daniel Johannes Bredenkamp of Pitcher Partners as Joint and Several Administrators.
- On 10 May 2016, following a resolution passed at the first meeting of creditors, Quentin James Olde and Michael Joseph Ryan of FTI Consulting replaced Bryan Kevin Hughes and Daniel Johannes Bredenkamp of Pitcher Partners as Joint and Several Administrators of Antares.
- As part of the 30 June 2016 year-end audit procedures, Aurora engaged an external independent valuer in the US, South Texas Reservoir Alliance LLC (STXRA), to perform an independent valuation of the underlying assets of Antares, being Northern Star and Big Star (STXRA conducted a similar valuation for the purposes of Aurora’s 31 December 2015 financial statements). In summarising the STXRA valuation, the following observations are relevant:
 - STXRA reviewed, in the course of its analysis, both recent market transactions and public land records to provide both a liquidation and transactional evaluation of the assets;
 - The Administrator of Antares, FTI Consulting, made an ASX Announcement on 30 August 2016 calling for Expressions of Interest. In that Announcement, the Administrator advised that circa 5,000 acres of leased land had expired, leaving circa 15,900 acres;
 - STXRA indicated that “there is a trend in the E&P industry right now to only focus on core acreage and this leasehold is not considered core in the Midland basin so the number of potential purchasers for this asset are pretty limited”;
 - STXRA provided a valuation range of between USD\$985,000 (representing 2X the lower end of the Liquidation value) to USD\$12,312,500 (representing 5X the upper end of the Liquidation

value) (being AUD\$1,279,055 to AUD\$15,988,183). The face value of the AZZG Notes is AUD\$47.5 million;

- STXRA concluded that Antares, “given its financial situation and inaction on its leases, would probably tend more towards lower end of liquidation pricing”;
- STXRA also noted that “due to Antares lease position falling apart and the recent lower price per acre metrics, it appears that this asset will tend to the lower values”;
- The STXRA valuation range excludes any other liabilities and costs that need to be satisfied by the Administrator;
- The Funds holds circa 12.0% of the AZZG Notes;
- Antares has been trying to sell the asset for a number of years, with no sale forthcoming; and
- The external valuation is based on the value of the acreage, so any costs of administration would need to be paid first.

In addition to the STXRA valuation, Aurora management had regard to confidential information and reports provided by the Administrators.

The fair value of the AZZG Notes is based on significant estimates and judgements adopted by management of Aurora based on the prevailing market conditions and all available information about Antares as at the date of the 30 June 2016 financial report.

Aurora management considered the range of possible values and determined that the fair value of the AZZG Notes held by the Fund should be nil as at 30 June 2016.

As part of the year-end audit procedures, the external auditors (Deloitte) reviewed the analysis prepared by Aurora management along with the associated reports and concurred with the position taken.

Reinstatement of Liquidity

On 25 July 2016, Aurora announced a proposed liquidity solution that, amongst other things, involved the creation of two (2) notional pools, being the Aurora Fortitude Absolute Return Fund General Pool (“General Pool”) and the Aurora Fortitude Absolute Return Fund Note Pool (“Note Pool”). Under this proposal, it was contemplated that the illiquid investment, AZZG Notes, would be transferred to the Note Pool along with some cash to fund the Administration, with the remaining liquid investments being held in the General Pool. All existing investors would then have proportional exposure to both Pools.

In light of the decision above to write down the carrying value of the AZZG Notes to nil as at 30 June 2016:

- the commercial rationale supporting the creation of two (2) notional pools no longer exists, as the associated costs are likely to outweigh the potential benefits; and
- the Fund becomes unfrozen.

As a result, Aurora will no longer create two (2) notional pools but rather will now process all Redemption Requests pursuant to its Constitution, Product Disclosure Statement and any Fund updates.

Update on Redemption Requests

Prior to the announcement on 25 July 2016, Aurora had received a number of Redemption Requests which would have been processed had it not been for the uncertainty around the AZZG Note valuation. For those requests received prior to 25 July 2016, no withdrawal fee will be charged.

In light of the decision not to proceed with the creation of two (2) notional pools, all investors that had lodged Redemption Requests after 25 July 2016 but before 31 August 2016, will now have the option of withdrawing their Redemption Request. This option remains open for seven (7) days. If no withdrawal request is received by 7 September 2016, Aurora will process those Redemption Requests pursuant to its Constitution, Product Disclosure Statement and any Fund updates.

For all Redemption Requests received by Aurora after the 31 August 2016, Aurora will process those Redemption Requests pursuant to its Constitution, Product Disclosure Statement and any Fund updates.

What to do if you wish to remain invested in the Fund

If you wish to remain invested in the Fund, **you don't need to do** anything. Your investment will continue to:

- Pay quarterly distributions; and
- Be actively managed according to the Fund's investment objective.

What to do if you wish redeem

Should you wish to withdraw part or all of your investment, you will need to:

- Download a redemption form from our website at <http://www.aurorafunds.com.au/wp-content/uploads/2013/07/AFARF-Redemption-Request.pdf>; and
- Read and consider the Aurora Absolute Return Fund PDS available from www.aurorafunds.com.au

The unit registry, One Registry Services will send you a confirmation of your redemption. You should keep this documentation for your records. One Registry Services can be contacted on (02) 8188 1510.

Further information

If you have any queries or concerns, please contact us.

Telephone: (02) 9080 2377 or 1300 553 431 (within Australia) or 0800 447 637 (within New Zealand)
Email: enquiries@aurorafunds.com.au
Post: PO Box R1695, Royal Exchange NSW 1225

Aurora Funds Management Limited | ABN 69 092 626 885 | AFSL No. 222110

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